Platinum Unhedged Fund

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Portfolio Manager

Performance

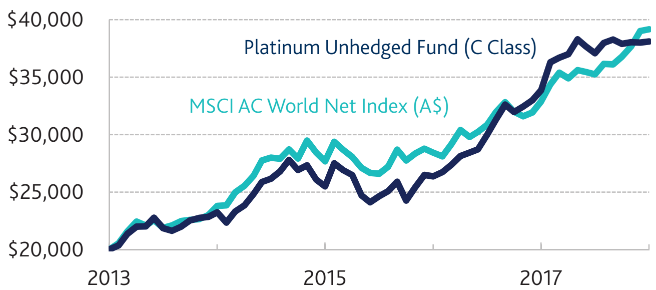
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	1%	12%	14%	14%	12%
MSCI AC World Index^	6%	19%	12%	14%	8%

* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 4. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 4.

So far 2018 has not been a strong year for performance. Year to date the Fund (C Class) has returned 3.0%, while on a shorter time horizon the Fund's value (C Class) rose by 0.5% over the past quarter.

It is worth examining some key positions in the portfolio that have led to this outcome. The two major drivers were our holdings in China and Financials.

China

At the time of writing the Chinese stock market is down 18% year to date, and down 27% from its January high. Despite these large falls in the overall market, it is encouraging that our individual Chinese stocks have performed much better in a relative sense, with our China holdings in aggregate providing a positive (albeit modest) 2.9% total return to the Fund year to date.

Over the last nine months we have made money in large positions such as gas pipeline owner ENN (+22%) and liquor producer Jiangsu Yanghe (+11%). However, given the broad falls in the market, we also have seen a number of our major positions experience 5-15% retracements in price, such as auto insurer PICC (-8%) and green utilities company Beijing Enterprises (-5%), which have offset our gains to a degree.

So, despite the great volatility in the broader market, our Chinese positions overall have not been a source of loss for the Fund. The disappointment was more from having 29% of the portfolio in an area that delivered only a modest 3% return.

Financials

We have seen a pullback in a number of our banking and real estate related holdings, which in aggregate have cost the Fund -2.4% in total return year to date. Three positions – Raiffeisen Bank, KB Financial Group and Foxtons – together accounted for -1.4% of that loss.

We detailed the situation around Foxtons in our June 2018 Quarterly Report. This report will focus on Austrian bank Raiffeisen and Korea's KB Financial Group. Operationally, both banks are doing very well, but despite this, their share prices have fallen 30% and 22% respectively from the highs. The concerns around each bank relate to issues outside of their control, namely, government interference and regional economic slowdown.

In Raiffeisen's case the issue is Russia. Over the last 25 years **Raiffeisen Bank** has built a profitable banking business in Russia that is focused on serving mid-sized corporates and the relatively wealthy middle class retail customers. Russia now accounts for 30% of the group's earnings. The concern stems from the new US sanctions implemented in April which, instead of targeting the Russian government, directly targeted specific private Russian individuals and companies (typically those believed to be in Putin's inner circle). Following the announcement of these sanctions, the market has been quick to sell off any stock with 'Russia risk'. Having examined the facts, we are less concerned. Raiffeisen isn't the bank of choice for these high profile individuals and corporates, hence the sanctions have had no direct impact on Raiffeisen's business and, unless dramatically widened, are unlikely to do so in the foreseeable future.

For **KB Financial Group**, the recent fall was driven by a mix of fears over the economic outlook (given Korea's export orientated economy and its proximity to China) and new measures by the Korean regulator to restrict mortgage lending (to cool rising house prices) and reduce bank charges on credit card transactions.

If we look past these fears, which have arisen from transient events, and focus instead on the fundamentals, we believe that these banks still represent attractive investments. Both banks are very well capitalised, solidly profitable and are growing their loan books at 5-10% per year. The fact that Raiffeisen and KB are trading on a price-to-earnings (P/E) multiple of 7x and 6x respectively makes them outstanding value in our view, and we have been adding to both positions.

Outside of these pockets, the performance of the rest of the portfolio was largely neutral, with gains in one area offsetting losses in another. For example, our major payments and business services holdings saw strong returns year to date (PayPal +19%, IHS Markit +20%, Equifax +11%), but were offset by falls in our industrials and commodities positions (Lixil -28%, Glencore -11%, Seven Generations Energy -13%).

Commentary

The obvious question after a period of dull performance is "does it make sense to continue to hold this portfolio".

When building a portfolio, we want diversity in the geography, industries and the types of investments that we are making. We also want to own a collection of businesses whose implied return is high.

When assessing the implied return of an investment, we like to think in terms of earnings yield, which is the P/E inverted (i.e. the earnings to price ratio). For example, Raiffeisen on a P/E of 7 times gives us an earnings yield of 14%. This means

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Asia	36%	37%	40%
North America	27%	25%	21%
Europe	18%	17%	21%
Japan	5%	6%	9%
Russia	1%	1%	1%
South America	<1%	<1%	1%
Cash	13%	14%	7%

See note 3, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	20%	21%	18%
Industrials	17%	16%	17%
Financials	17%	18%	23%
Energy	12%	10%	9%
Consumer Staples	7%	7%	6%
Consumer Discretionary	3%	3%	7%
Materials	3%	3%	3%
Health Care	3%	3%	3%
Real Estate	2%	2%	3%
Utilities	1%	3%	4%
TOTAL NET EXPOSURE	87%	86%	93%

See note 4, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	34%	33%	28%
Hong Kong dollar (HKD)	17%	15%	15%
Euro (EUR)	14%	12%	17%
Chinese yuan (CNY)	7%	7%	7%
Japanese yen (JPY)	7%	8%	9%
Indian rupee (INR)	5%	4%	7%
Korean won (KRW)	4%	4%	5%
British pound (GBP)	3%	3%	4%
Norwegian krone (NOK)	3%	3%	4%
Canadian dollar (CAD)	3%	2%	0%
Australian dollar (AUD)	2%	6%	2%
Danish krone (DKK)	1%	1%	1%

See note 5, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/puf.

that, had you been the owner of the whole of Raiffeisen's business, you would be making a 14% annual return, which you could choose to pay out as a dividend or partially re-invest back into the company for growth. A 14% return is not a bad starting point given the average long-term real return from global equities is 5.2%![1]

To examine the value and variety in the portfolio, we can start with our positions in the oil sector. We have 12% of the portfolio invested in oil companies, with a skew to oil services providers. The oil services industry is emerging from one of the deepest recessions in 30 years and has seen industry capex cut by roughly 50%. In the long run, this depressed level of activity is simply not sustainable. The one constant of the oil industry is the 'decline rate', which is the pace at which output from existing fields tends to decline every year. The industry therefore requires constant investment just to maintain the same level of output, let alone grow.

With the oil market going from being oversupplied to now being in deficit, and with the oil price steadily trending upwards, there is clear evidence that industry spending is rebounding. We own a collection of services companies such as Transocean and China Oil Services, which are trading on earnings yields of 13-16% in a realistic recovery scenario.

A higher growth investment is our holding in liquor maker Jiangsu Yanghe. Yanghe is the most entrepreneurial among Chinese spirit producers, investing heavily in marketing and successfully positioning its brands as the choice for younger 'new China' drinkers. This positioning has allowed Yanghe to grow sales over the last few years at 20% per annum, and the company still has plenty of room to expand outside of its home market in Jiangsu Province. What's interesting to us is that, despite growing four times faster than its western peers Diageo and Pernod, Yanghe's shares are 30% cheaper.[2]

Finally, an example of a high quality business that we feel is under-appreciated by the market is Microchip Technology. Microchip makes microcontrollers (MCUs) which are essentially a complete computer (albeit a simple one) on a single chip. The constant shift to electronic solutions (e.g. aeroplanes moving from mechanical controls to electronic 'fly by wire' computerised control) and the desire to have connected devices is driving increased demand for MCUs. In short, if we are going to have autonomous cars and the 'Internet of Things', we are likely to be using more MCUs. We feel owning Microchip at a starting earnings yield of 8% should prove a good investment.

1 Average real annualised return on global equities 1900-2017. Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and *Credit Suisse Global Investment Returns Yearbook 2018*.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Applus Services	Spain	Industrials	3.3%
Kweichow Moutai	China	Consumer Staples	3.3%
Raiffeisen Bank	Austria	Financials	3.3%
IHS Markit Ltd	USA	Industrials	2.8%
Alphabet Inc	USA	IT	2.8%
Seven Generations Energy	Canada	Energy	2.7%
KB Financial Group	Korea	Financials	2.7%
PICC Property & Casualty	China	Financials	2.5%
TechnipFMC	UK	Energy	2.5%

As at 30 September 2018. See note 6, page 4.
Source: Platinum Investment Management Limited.

Outlook

Platinum's approach to finding attractive investments is underpinned by several guiding principles. They include:

1. Avoid the hot areas of the market.
2. Seek out investments that face temporary uncertainty – uncertainty creates low expectations and, with that, low stock prices.
3. Pay attention to industries facing great change – investors naturally find it difficult to accurately price a future that is very different from today.

So far in 2018 applying the first two principles has not paid. In fact, the market has rewarded the complete opposite. The two top performing markets have been the Nasdaq which, composed largely of US technology and biotech stocks, has been the definition of 'heat' recently, and the US market, which is perceived to offer certainty and safety.

Despite the market currently not working in our favour, we have no intention of deviating from our approach. Over the past 25 years, the consistent application of our principles has been shown to deliver good returns over time. Starting valuation is the single most important factor in determining future returns and the stock examples above illustrate why we remain enthused about the future returns of the Fund.

While we can never know precisely when the market will recognise the value of our holdings, history has shown that as long as we are right about the earnings potential of the businesses, buying at these levels generally provided a good outcome.

2 Based on the measure of enterprise value (market cap + net debt) / net income. Yanghe trades on 18x versus Diageo and Pernod on 26x.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian Dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund has been used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from FactSet.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI index in Australian Dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the Fund and represent the combined income and capital returns of C Class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's effective long exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's effective net exposures to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

5. The table shows the Fund's effective net exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stock holdings, cash and the use of derivatives.

6. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

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